



April Renfro, CPA, Manager

Idaho Legislative Services Office
Legislative Audits Division

90-DAY FOLLOW-UP REPORT

STATE OF IDAHO – FY 2013 INTERNAL CONTROL REPORT

On January 30, 2014, the Legislative Services Office released the fiscal year 2013 *Internal Control Report*. This report is a federally required independent auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

State agencies with findings in this report were contacted in April 2014, and actions to address the recommendations have been evaluated. The results of this work are summarized below.

CONTROLLER, OFFICE OF THE STATE

FINDING 2013-101

Internal control weaknesses allowed misstatements in the statewide financial statements to go undetected.

RECOMMENDATION

We recommended that the Office improve the design and effectiveness of internal controls over the compilation of the statewide financial statements.

AUDIT FOLLOW-UP

The Office has become more conscious of ensuring consistency, accuracy, and completeness when coding and compiling information for the State's *Comprehensive Annual Financial Report* (CAFR), especially related to coding financial information for entities that receive an outside audit. The Office has made changes to the instructions for the compilation process which include comparing prior and current year coding of financial statement line items, reviewing prior errors identified by auditors and Office staff, and examining details of the notes to audited financial statements of entities that are incorporated into the CAFR.

In addition, the Office developed a memo to document the general treatment and resolution of classification discrepancies between the audit reports received for the colleges and universities and their respective foundations. The Office has also been in communication with foundation fiscal staff to better understand classification differences encountered between the audits received.

The Office continues to assert that they do not have the authority to perform post-audit functions and that the processes and procedures regarding information provided by agencies are limited to relying on agency internal controls, their attestation of those controls, and the amounts reported. In fiscal year 2013, the Office began performing trend analyses over select closing package information during this audit period, in addition to the trend procedures they already complete on the financial statements. However, we further suggested that the Office, as part of their risk assessment procedures, design specific procedures to verify the reasonableness of significant information submitted through external audit reports.

We will review the fiscal year 2014 financial statements and note disclosures as part of the CAFR audit to verify the classification, accuracy, and completeness of information included therein.

STATUS – OPEN

FINDING 2013-102

Reporting for the Idle Pool in the statewide financial statements contains a \$27.2 million understatement and a \$20.8 million overstatement for a net understatement of \$6.4 million.

RECOMMENDATION

We recommended that the Office continue to gain a greater understanding of the underlying data in STARS and reported by the Office of the State Treasurer for the Idle Pool. This understanding should be used to develop an appropriate method of evaluating the mark-to-market adjustment and reconciling cash to supported reports.

AUDIT FOLLOW-UP

The Office has held meetings and continues to be in communication with the Office of the State Treasurer to gain a better understanding of their systems, processes, and the information they provide. This information will assist in developing a methodology to determine whether a mark-to-market adjustment should be made for the Idle Pool investments and understanding differences identified during the reconciliation of the ending cash balance.

As part of the fiscal year 2014 CAFR audit, we will review the methodology developed by the Office to determine whether an adjustment to the fair market value of the Idle Pool investments is properly determined. In addition, we will review the cash balance reconciliation to ensure differences are reasonable and appropriately documented.

STATUS – OPEN

HEALTH AND WELFARE, IDAHO DEPARTMENT OF

FINDING 2013-103

Hospital assessments of \$14.7 million were levied and collected without statutory authority.

RECOMMENDATION

We recommended that the Department strengthen internal controls over compliance with laws and regulations to ensure fees charged and collected are appropriately authorized. We also recommended that the Department clarify the purpose and legislative intent for the hospital assessment fees and, if necessary, work to amend Idaho Code, Section 56-1404.

AUDIT FOLLOW-UP

The Department has implemented new procedures relating to the review of legislation pertaining to hospital assessments and other areas with potential financial impact to the Department. Review by members of the Department's Administrative Rules Unit is now logged on a tracking document, and proposed legislation is monitored as it moves through the processes involved in becoming law. Additionally, House Bill 561 was passed and signed into law effective March 26, 2014. It removes the fiscal year limitations on the authority to levy and collect hospital assessments.

STATUS – CLOSED

FINDING 2013-104

Financial reporting processes contain significant deficiencies in internal control allowing several errors in various closing packages to go undetected.

RECOMMENDATION

We recommended that the Department strengthen the design and effectiveness of internal controls over the completion of closing packages. We also recommended that the Department enhance the monitoring of internal controls to ensure they are operating as designed to comply with generally accepted accounting principles (GAAP) reporting requirements and the Office of the State Controller's (SCO) closing package instructions. We further recommended that the Department strengthen the review process to ensure accurate and reliable financial information is provided to the SCO.

AUDIT FOLLOW-UP

The Department has made changes to staff assignments and ensured those staff responsible for duties related to closing package preparation obtained the necessary training. Additionally, new procedures were implemented for tracking progress of assigned tasks related to closing package preparation, such as research of new guidance. We reviewed these procedural changes and will test their effectiveness at the time fiscal year 2014 closing packages are submitted to the SCO.

STATUS – OPEN

TAX COMMISSION, IDAHO STATE

FINDING 2013-105

Estimates used to determine the amount of taxes receivable accrued at year-end are not properly evaluated for reliability, resulting in misstatements.

RECOMMENDATION

We recommended that the Commission implement closing package procedures to ensure that all tax types and collection methods are considered in the estimate for taxes receivable and that the estimate is compared to actual results for reasonableness.

AUDIT FOLLOW-UP

The Commission has established a new method of estimating taxes receivable at year-end, based on looking back at the previous five years of collection data, which includes all tax types and collection methods. To implement this new method, the Commission has created new reports in their stand alone tax accounting system, GenTax version 6. These reports enable the Commission to create the estimate and later compare the estimate to the actual amounts collected.

The Commission is upgrading GenTax to version 9, which will be completed in fiscal year 2015. Version 9 has greater reporting and user interface capabilities that will streamline the process of creating and verifying the taxes receivable estimate.

The new method of creating the taxes receivable estimate, and the additional step of comparing the estimate to the actual amounts collected, address the recommendation. However, the effectiveness of these changes will not be clear until the completion of auditing procedures on the closing packages submitted for inclusion in the fiscal year 2014 financial statements.

STATUS – OPEN

TREASURER, OFFICE OF THE STATE

FINDING 2013-106

The Office of the State Treasurer inappropriately transferred investments from the Local Government Investment Pool (LGIP) to the Idle Pool resulting in a disproportionate share of investment losses incurred by the State.

RECOMMENDATION

We recommended that the Office strengthen processes to reduce the risk of management override of controls. This could include the addition of an independent oversight function in the form an investment board and financial consultants with specific expertise related to investment pools and activities. We also recommended that the Office evaluate the structure of all investments, including securities lending agreements, to ensure the preservation of their fiduciary duty of undivided loyalty to both the State's Idle Pool and the LGIP. The Office should design and implement appropriate internal controls to segregate investment activities and decision making between the two pools. We further recommended that the Office review the Securities Lending Agreement activity since July 1, 2008, to identify all losses incurred by the Idle Pool due to the inappropriate reallocation of assets.

AUDIT FOLLOW-UP

The first two recommendations have been addressed through the enactment of Senate Bill No. 1350 during the 2014 legislative session. This legislation created a State Treasurer Investment Advisory Board (Board). The Board will provide recommendations on the types and kinds of investments made by the State Treasurer as well as investment policies governing the investment of funds by the State Treasurer. Additionally, the legislation amended Idaho Code Section 67-1210A and added Idaho Code Section 67-1210B to remove securities lending agreements as an allowable investment of the State Treasurer in the future.

The Office asserts that reorganization of the accounting and investment staff since 2009 and a recent addition of an investment consultant provide the necessary internal controls to ensure the impartial management of the individual investment pools. We will assess the implementation and effectiveness of changes made when we complete procedures to support the audit of the 2014 statewide *Comprehensive Annual Financial Report*.

The Office asserts that they have reviewed securities lending transactions for reallocation of assets between investment portfolios directed by the Office and that they have provided the documentation relating to the reallocation of assets to the audit team. While documentation of two specific reallocations was provided during the audit, no additional evidence supporting a full review of all potentially inappropriate reallocations was provided.

This finding will remain open pending further assessment of the Office's documentation to support specific actions taken to address the weaknesses identified in internal controls over the individual investment pools and the review of all securities lending transactions for inappropriately reallocated assets.

STATUS – OPEN

FINDING 2013-107

The Office of the State Treasurer misclassified one security in the Idle Pool investment closing package.

RECOMMENDATION

We recommended that the Office strengthen the review process over closing package preparation to ensure that amounts reported in the investment pool schedules are properly classified.

AUDIT FOLLOW-UP

The Office plans to review and strengthen internal control procedures over closing package preparations to ensure the accuracy of the information submitted. We will review the closing package to ensure it is accurate and properly supported during the completion of procedures to support the audit of the 2014 statewide *Comprehensive Annual Financial Report*.

STATUS – OPEN